Makro Research

Deka-S-Financial Climate

July 1, 2024

Deka-S Financial Climate in Q2 2024: Economic recovery at a snail's pace

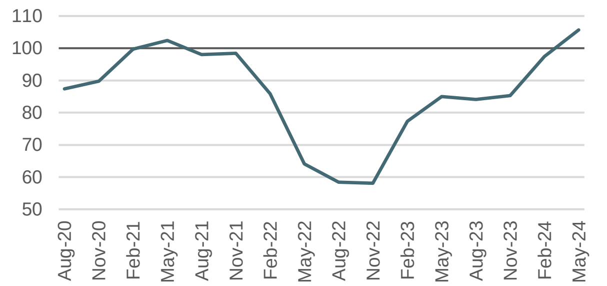
- The S-Financial Climate improved for the third time in a row in the second quarter of 2024. However, the indicator is still only just above the expansion threshold of 100 points. The fact that this still represents an all-time high is due to the starting point of the S-Financial Climate, which was in the middle of the coronavirus pandemic. There is still plenty of room for improvement.
- The upturn is also reflected in a significant increase in the assessment of credit demand by the Savings Bank Boards. With supply conditions remaining the same, this means more competition among borrowers for the available funds.
- As far as monetary policy is concerned, expectations are that key interest rates will fall significantly further. Together with an improving economy, this would be a tailwind for further price trends on the equity and bond markets.
- When it comes to issues of public financing that are important for the capital markets, the Savings Banks advocate a fiscally conservative policy in Germany. An overwhelming majority of 80.4 percent rejects the financing of upcoming public tasks through more debt. Not a single one of the Savings Banks' Board Members is in favor of abolishing the debt brake.

Finanzgruppe
Deutscher Sparkassen- und Giroverband

S Financial Climate at all-time high

With a further significant increase, the S-Financial Climate reached an all-time high in the second quarter of 2024 (Fig. 1). However, the relatively short history of the indicator – which began shortly after the outbreak of the coronavirus pandemic – and the fact that the level of around 106 points still leaves plenty of room for improvement must be taken into account. While indicators related to the economy improved, indicators from the monetary areas tended to fall.

Fig. 1 Deka-S Financial Climate, Q1 2024

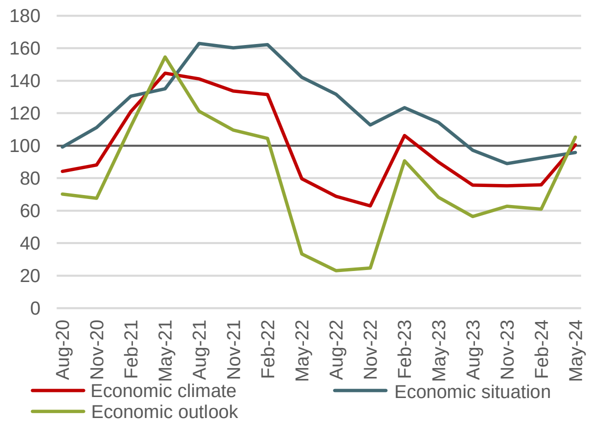


Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Economic climate still stagnating

The economic climate improved in the second quarter (Fig. 2). At the same time, the assessment of the economic situation has only increased marginally. This is in line with the assessment that the first half of 2024 will see macroeconomic expansion close to stagnation at best. Forecasters are pinning their hopes on the second half of the year. Consumers are regaining purchasing power thanks to falling inflation and sustained high wage growth. At the same time, the dampening effects of the restrictive monetary policy of the past few quarters are beginning to ease, not only in Germany but also among Germany's trading partners. This is the stuff that hopes of a revival in investment and exports are made of. This is also the view of the Savings Bank Board Members, who have significantly raised their economic expectations in the latest survey. This means that for the first time in a long time, the outlook for the future now exceeds the current assessment of the situation, which is a typical constellation for incipient recoveries.

Fig. 2 Economic climate weak and sideways

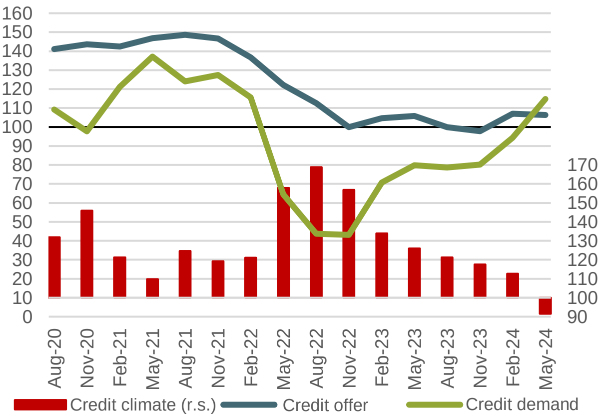


Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Credit climate has declined

For the first time since the survey began, the credit climate – the balance of the savings banks' willingness to lend and the expected demand for credit plus 100 – has fallen below the 100 mark (Fig. 3). This indicates that it has currently become more difficult for companies to obtain loans. However, this constellation is not unusual for an economic turning point. Companies are asking for more loans again in anticipation of better times, while the financial sector is still cautious in view of the current weak state of companies and is keeping supply conditions constant. However, one can confidently expect this picture to change once it becomes clearer that the recovery is not a flash in the pan.

Fig. 3 Credit Climate

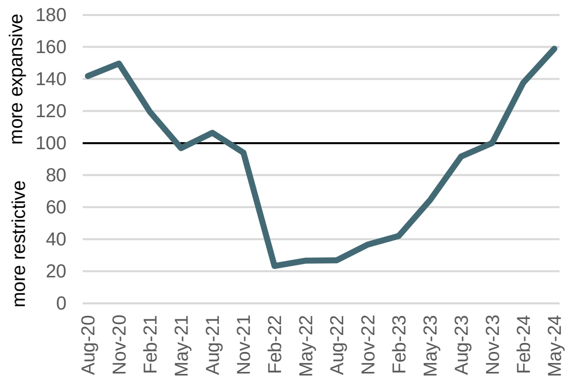


Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Monetary policy becomes more expansive

In June, the European Central Bank lowered the refinancing rate for the first time since the start of the interest rate hike cycle. The Savings Bank Board Members had anticipated this correctly. Ever since the survey at the beginning of the year, they had been assuming a more expansive monetary policy within the next twelve months. According to the current survey, the board members expect further interest rate cuts, which would reduce the current restrictive monetary policy (Fig. 4).

Fig. 4 Direction of monetary policy



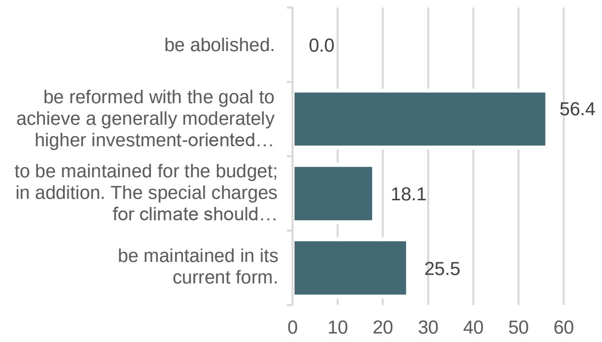
Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Policy

National debt is once again becoming an issue. After the national budgets of the established industrialized countries have been severely strained by the coronavirus and energy crises in recent years, most countries have not yet succeeded in consolidating their public budgets. With France, Italy, Spain, Belgium and Greece, but also the USA, a group of highly indebted countries has emerged which - with the exception of the USA – could quickly run into refinancing difficulties if capital market conditions deteriorate. The recent rating downgrade of France and further warnings from the rating agencies regarding the political uncertainty in France following the European elections confirm that the financial markets are becoming increasingly sensitive. Germany is an exception here. But here too, the debt issue has flared up again in view of the tense financial situation and rising appetites.

Against this backdrop, the Management Boards of the Savings Banks are unanimously in favor of further control of government debt development through the debt brake currently enshrined in constitutional law (Fig. 5). Not a single vote was cast in favor of abolishing the debt brake. In fact, around a quarter of respondents are in favor of retaining it in its current form. The outsourcing of intergenerational investment tasks such as climate protection to special debt accounts outside of normal budgets is supported by 18%. Around 56% of respondents can imagine a moderate reform of the debt brake for more public investment – provided that an effective limit is maintained.

Fig. 5 The debt brake should ... (Proportion of mentions, in %)



Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Conclusion

The Savings Banks expect the economy to recover at a snail's pace. Economic momentum in Germany is picking up, but only very gradually. Lending conditions are deteriorating slightly, although this is mainly due to a noticeable upturn in demand while supply remains more or less unchanged. Public debt is once again becoming an issue: in view of the high debt levels reached and the enormous challenges facing the public purse, the Savings Banks are calling for the financial solidity of governments to be maintained.

Summary: Deka-S Financial Climate Q2 2024

	2024 Q2	2024 Q1	
S-Financial Climate	105.7	97.4	↑
S-Economic Climate	100.5	76.0	↑
S-Credit Climate	91.6	112.7	↓
Economic situation	95.8	92.6	↑
Willingness to lend	106.3	107.0	↓
Regulatory framework	15.8	17.2	↓
Cost of capital	78.7	70.8	↑
Profitability	147.4	185.1	↓
Economic outlook	105.3	60.9	↑
Credit demand (commercial)	114.7	94.4	↑
Demand for real loans	136.8	107.9	↑
Personnel planning	96.8	100.0	↓
Expectations of monetary policy	158.9	137.7	↑

Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Deka-S Financial Climate Index: Construction

The Deka-S-Finanzklimaindex was developed in cooperation between the Research Center for Savings Bank Development at the University of Magdeburg, headed by Prof. Horst Gischer, and DekaBank with the involvement of the German Savings Banks and Giro Association (DSGV). The index is calculated from the results of a quarterly survey of 351 savings banks. It consists of ten subject areas, each of which can be divided into a perspective on the current situation and future expectations. In addition, there are changing special questions relating to the current economic or monetary situation.

The evaluation algorithm is based on the balances of positive and negative answers to each question. A completely neutral result results in an index value of 100. A completely positive assessment in all questions by all participants means an index value of 200 points, with the opposite negative variant the index value is zero.

Makro Research
Economy Update

Author:
Dr Ulrich Kater, Dr Andreas Scheuerle

Publisher:
Chief Economist Dr Ulrich Kater
DekaBank, Makro Research
Phone: (0 69) 71 47 - 28 49
E-mail: economics@deka.de

Internet: https://deka.de/deka-gruppe/research
Imprint: https://deka.de/deka-gruppe/impressum

Makro Research

Economy Update

MSCI: MSCI is a registered trademark of Morgan Stanley Capital International Inc. MSCI makes no representation or warranty, express or implied, and assumes no responsibility whatsoever for any MSCI data contained in this slide deck. MSCI data may not be redistributed or used as a basis for other indices, securities or financial products. This publication has not been reviewed, endorsed or produced by MSCI.

Merrill Lynch: Merrill Lynch licenses the Merrill Lynch Indices on an "as is" basis, makes no representations with respect thereto, makes no warranty as to the quality, accuracy and/or completeness of the Merrill Lynch Indices or the data included therein or derived therefrom and assumes no liability in connection with the use thereof.

FTSE: "FTSE®" is a trademark of the London Stock Exchange Plc and the Financial Times Limited, "NAREIT®" is a trademark of the National Association of Real Estate Investment Trusts "NAREIT®" and "EPRA®" is a trademark of the European Public Real Estate Association ("EPRA"). The use of the trademarks by FTSE International Limited is under license. The Deka Global Real Estate Top 50 in EUR is calculated by FTSE. The product is neither sponsored, endorsed nor promoted by FTSE, Euronext N.V., NAREIT or EPRA. They are in no way connected with the product and accept no liability in relation to its issue, operation or trading.

S&P: S&P Indices is a registered trademark of Standard & Poor's Financial Services LLC.

Nikkei: The Nikkei Stock Average ("Index") is the intellectual property of Nikkei Inc (the "Index Sponsor"). Nikkei Digital Media, Inc. has an exclusive license from Nikkei Inc. to grant sublicenses to Deka-Bank to use the Nikkei Stock Average. "Nikkei", "Nikkei Stock Average" and "Nikkei 225" are the service marks of the Index Sponsor. The index sponsor reserves all rights, including copyright, to the index.

NASDAQ: Nasdaq makes no representation or warranty, express or implied, and assumes no responsibility whatsoever for any Nasdaq data contained herein. Nasdaq data may not be redistributed or used as the basis for other indices, securities or financial products. This publication has not been reviewed, approved or produced by Nasdaq.

LPX: "LPX®" is a registered trademark of LPX GmbH, Zurich, Switzerland. Any use of the LPX trademark and/or the LPX indices is not permitted without a license agreement.

Euribor: EURIBOR® and EONIA® are registered trademarks of Euribor-EBF a.i.s.b.l. All rights reserved.

Dow Jones: "Dow Jones®", "DJ", "Dow Jones Indexes" are service marks of Dow Jones Trademark Holdings, LLC ("Dow Jones") and have been [further] licensed for use for certain purposes by DekaBank.

Bloomberg: BLOOMBERG and BLOOMBERG INDIZES are trademarks or service marks of Bloomberg Finance L.P. Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") or Bloomberg licensors own all proprietary rights in the BLOOMBERG INDIZES

iBOXX: iBoxx is a trademark of International Index Company Limited and has been licensed for use by [client name]. International Index Company Ltd, its employees, suppliers, sub-contractors and agents ("International Index Company related persons") do not warrant the completeness or accuracy of [product name] or any other information provided in connection with [product name]. In addition, no representation or warranty, express, implied or otherwise, is made as to the condition, sufficiency, performance or fitness for a particular purpose of the data or use of [product name]. Representations or warranties are excluded to the extent permitted by law.

STOXX: EURO STOXX 50® is a registered trademark of STOXX Limited.